

**BILL #** HB 2059

**TITLE:** tax credits; family income; pollution

**SPONSOR:** Huffman

**STATUS:** As Introduced

**REQUESTED BY:** House

**PREPARED BY:** Hans Olofsson

## **FISCAL ANALYSIS**

### **Description**

This bill amends current statutes by adding additional requirements for taxpayers to qualify for the family income tax credit and the pollution control equipment tax credit. For the family income tax credit, the bill adds a requirement that a taxpayer's federal adjusted gross income (FAGI) cannot exceed \$50,000 per year. For the pollution control equipment tax credit, the bill adds language specifying that property that has a substantial use other than preventing or controlling pollution is not eligible for the credit. The bill would become effective in tax year 2006.

### **Estimated Impact**

The JLBC Staff estimates that the first section of the bill, related to the family income tax credit, will increase individual income tax collections by \$349,000 in FY 2007 due to a reduction in the number of qualifying taxpayers. The Department of Revenue (DOR) also estimates a revenue increase of \$349,000 for this section of the bill.

The JLBC Staff estimates that the second and third section of the bill, related to the pollution control tax credit, will possibly prevent future General Fund revenue losses. The magnitude of these losses cannot be predicted in advance. DOR claims that "failure to pass the bill will have a significant fiscal impact." According to DOR, there are currently claims in the amount of \$20 million for the pollution control equipment credit that the department has rejected. DOR believes that HB 2059 bill would prevent future claims.

### **Analysis**

Under current statute, the eligibility requirements for the family income tax credit are based on Arizona adjusted gross income rather than FAGI. According to DOR, existing statute allows some part-year residents to claim a credit that they would be ineligible for if they resided in Arizona for the full year. For example, DOR reported that 11 part-year resident taxpayers with a FAGI of more than \$1 million claimed the family income tax credit for tax year 2001. By contrast, FAGI reflects a taxpayer's income for the entire year regardless of whether he or she is a part-year resident of Arizona or not. Based on a DOR review of Arizona tax-filing information, the department estimates that 4,000 taxpayers would be affected by this bill. According to DOR, under this bill, these taxpayers would have to pay an additional \$349,000 in state income tax.

According to DOR, a small number of corporate taxpayers are currently claiming refunds of \$20 million for the pollution control equipment tax credit. However, DOR asserts that these claims are not supported under current statutes. In DOR's view, this bill would help to clarify and strengthen the original intent of the tax credit. To the extent that the bill limits a broader usage of this credit, it will produce unknown savings to General Fund.

### **Local Government Impact**

Each year incorporated cities and towns receive 15% of individual and corporate income tax collections from two years prior. Hence, beginning in FY 2009, this bill will increase local government distributions by \$52,400.